CORRECTED FISCAL NOTE

HB 3033 - SB 3035

March 13, 2006

SUMMARY OF BILL: Authorizes a municipality which creates a tourism development zone (TDZ) to levy an additional one-half percent (0.5%) tax on all privileges which are otherwise subject to sales and use tax occurring within such TDZ, provided that local option tax rates (LOTR) do not exceed 2.75%. Requires any incremental tax revenue derived from such increase to be earmarked for debt service on a qualified public use facility (QPUF). Authorizes any county having a metropolitan form of government with a population exceeding 500,000 (Nashville) to have more than one TDZ.

ESTIMATED FISCAL IMPACT:

On March 2, 2006, we issued a fiscal note indicating a one-time increase to state expenditures of $44,000 and a potential net and recurring increase to local government revenues of $3,570,000. In addition, we indicated that Chattanooga, Knoxville, Memphis, and Sevierville would be the four local governments that could benefit, each gaining a portion of the $3,570,000. Based on additional information, the fiscal impact of this bill is:

(CORRECTED)
Increase State Expenditures - $44,000 One-Time

Other Fiscal Impact – Currently, there are four TDZs (Chattanooga, Knoxville, Memphis, and Sevierville). Nashville is eligible for one TDZ, but has yet to elect TDZ status. Enactment of this bill would allow Nashville a second TDZ. Therefore, there are five local governments (six TDZs) that could benefit. To the extent LOTR were increased to 2.75% (maximum allowed under this bill) in all six TDZs, local government revenues would increase approximately $5,985,000 (Chattanooga would gain $1,260,000; Knoxville, $525,000; Memphis, $1,365,000; Nashville, $2,625,000; and Sevierville, $210,000) These revenues would be earmarked for debt service incurred on any QPUF constructed within each TDZ respectively. As a result, these funds could not be allocated for local government general purpose use.

Assumptions:

- Currently, there are four TDZs within Tennessee: Chattanooga, Knoxville, Memphis, and Sevierville.
- Nashville is authorized to have one TDZ, but it has not elected TDZ status.

- This bill would allow Nashville a second TDZ.
- LOTR for Chattanooga, Knoxville, Memphis, and Nashville are currently 2.25%.
- LOTR for Sevierville is 2.50%.
- Based on FY05 collections, the Department of Revenue has indicated that by increasing the LOTR by 0.5% in Chattanooga, Knoxville, Memphis would generate approximately $3,000,000 in incremental revenues (Chattanooga would gain $1,200,000; Knoxville, $500,000; and Memphis, $1,300,000).
- Increasing the LOTR in Sevierville by 0.25% (maximum allowed under this bill) would generate approximately $200,000 in incremental tax revenue.
- Assuming Nashville would generate the average of Chattanooga and Memphis by increasing its LOTR by 0.5%, it would generate approximately $1,250,000 in incremental revenue for each TDZ.
- Given Nashville would be eligible for two TDZs, it could generate approximately $2,500,000 ($1,250,000 X 2 TDZs = $2,500,000).
- The net increase to local government revenues, based on FY05 collections, is estimated to be $5,700,000.
- Sales tax collections grow 5% from FY05 to FY06.
- The increase to local government revenues (adjusted for growth) is estimated to be $5,985,000 ($5,700,000 X 105% = $5,985,000) for FY06.
- To the extent all six eligible TDZs increase their LOTR by 0.5% (0.25% for Sevierville); Chattanooga would gain $1,260,000; Knoxville, $525,000; Memphis, $1,365,000; Nashville, $2,625,000; and Sevierville, $210,000.
- Any increase to local government revenues would be earmarked for debt service incurred on any QPUF located within each TDZ respectively. As a result, these funds could not be allocated for local government general purpose use.
- Software modifications required to implement this legislation is estimated as a one-time state expenditure of $44,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James W. White, Executive Director